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**Memphis Field Briefing on Home Foreclosures
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Testimony submitted by:

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Chairman Cohen, members of the subcommittee, I appreciate the opportunity to speak before the House Subcommittee on Commercial and Administrative Law. My name is Steve Lockwood. I am the Executive Director of the Frayser Community Development Corporation. Additionally, I have served for many years as the Policy Chairman for Community Development Council of Greater Memphis—the CDCs’ trade association in Memphis. My objective today is to provide information from a neighborhood perspective on the impact of foreclosures on communities, as well as to identify potential strategies and solutions to curb foreclosures and their repercussions in Memphis.

My testimony today speaks to the following points:

Foreclosures have had and continue to have a massive impact on Frayser and other neighborhoods. The repercussions of this phenomenon, at this point, stretch well beyond housing, impacting the entire fabric of the community.

Frayser- community profile

Frayser is a large, old, 1st ring suburb. This community of 45,000 residents, covering approximately 15 square miles, was incorporated into the City of Memphis in 1958. During its 1st several decades within the City, it was a prosperous neighborhood- home to Harvester International, Morel Meat Packing and other job centers. In 1970 the neighborhood's income was 110% of the Memphis area median. Since that time, the factories have closed; median incomes have dropped to about 60% of median.

Frayser Community Development Corporation- organizational profile

Frayser CDC was formed in 2000 to work with the community to provide improved housing and stimulate commercial and economic growth. In recent year, the CDC has purchased and rehabbed 54 houses. Additionally, the CDC offers certified Home Buyers Education, Credit Counseling and Foreclosure Counseling at no charge. The CDC is currently using federal Neighborhood Stabilization Program (NSP) funds aggressively to increase its production of houses. The CDC has a staff of 4.5 FTE.

Foreclosure in Frayser

Frayser, for various reasons, has led Shelby County, and probably the State of Tennessee, in foreclosure rates for the entire last decade. From 2000-2009 there were 7500 foreclosure notices filed in the community of approximately 12,000 single family houses. This has resulted in an estimated 4800 foreclosures.

The causes of this extremely high and protracted rate of foreclosure are multiple. First among those causes is the fact that Frayser and its residents were prime targets of predatory lenders. Again, from 2000-2009, Frayser led the Memphis area in percentages

of high cost, high risk subprime and predatory loans. The initial result of this lending and borrowing has been, of course, extremely high rates of housing losses to foreclosure.

With 4,800 foreclosures in last decade, Frayser has a lot of new property owners. In Frayser, the vast majority of those new owners are investors—many of them inexperienced and many of them from out of town. Estimates of investor purchases vary from 60%-90%-- these are much higher rates than the Memphis area average. What we have is a conversion program from home ownership to absentee rental. It is estimated that in the last decade, the ownership rate in Frayser has dropped from 65% to 35%. While a strong rental market is a key component of a healthy housing market, **Memphis needs protection from unskilled and sometimes predatory landlord/investors.**

Establishment of minimum rental standards would be a good start.

There are other repercussions that are equally ominous. Frayser has always been an affordable neighborhood. In 2005, the average home sale was \$50,000. By the 1st quarter of 2010 the average sale price had dropped 60%-- to \$20,400. This is a drop in equity in the neighborhood of about \$355M, for just the single family homes. Families' nest eggs have shrunk radically; even those who bought at the right price and took out safe, affordable loans are upside down on their mortgages.

Low housing values have then contributed to extremely high vacancy rates—currently above 10%. Many owners have simply walked away from their homes; many banks simply don't bother to foreclose. Nearly every block contains abandoned houses, which often result in the stripping of the homes for copper and other materials, as well as the total loss of the structure to fires. **Memphis communities need stepped up board-up**

programs to protect empty homes. This would be, at the very least, a revenue neutral program that would save public funds expended on law enforcement, fire protection and other costs associated with abandoned properties. It should be noted that Frayser has extensively utilized Neighborhood Stabilization Program funds to acquire and redevelop empty, foreclosed homes. This program has been very effective.

As noted, increasing number of renters are living in poorly maintained homes owned by unskilled and absentee landlords. With the demolition of nearby public housing, Frayser now has the largest concentration Section 8 residents in the city. All of the above have contributed to extremely high crime rates. It is a true vicious cycle.

For all of this, positive elements do remain. The housing stock is, in general, in good condition. The neighborhood is green and rolling with large attractive lots. It is conveniently located to Downtown and Midtown and borders on interstate 40.

And, there are up-sides to the current housing holocaust. It stands to reason that the banks have less interest in taking houses back in a community where the average sale is \$20K. In early 2009, Frayser CDC's counselors started finding the banks to be increasingly interested and flexible in modifying loans. They had no motivation to take back houses that would cost them more to dispose of than they were worth. Consequently, the success rate of the CDC's foreclosure prevention counseling has been much better than in higher value communities. The only real limit to the ability of agencies such as ours to help avert foreclosures has been a shortage of funds for staffing and public education. The foreclosure epidemic will not end any time soon. **An increase**

in funding for foreclosure counseling and education would be an important investment and stabilizing influence in our communities.

The HAMP program has been one tool in our arsenal to assist in modifying residents' loans. While the program has positives, it clearly has not always functioned as designed. The program can be tedious; it can take 12 months to hammer out an agreement. Bank often impose additional restrictions on top of HAMP's regulations. Consequently, there is confusion and frustration; mortgage holders that should qualify often do not.

Another up-side of the current housing crisis is affordability. Current housing prices allow Frayser CDC, even after complete renovations, to sell homes to new owners for \$200 a month less than they typically pay for rent. Residents can buy high quality 1300 square foot homes at a cost of \$475 a month, including taxes and insurance. At least, this would be the case if mortgages were available. But, for our typical applicants, mortgages are not available.

Frayser CDC feels that reform is needed in the way that credit scores are generated. A score of 590 will not allow residents to qualify for a mortgage and buy a home. Yet all 590's are not equal. Some low credit scores are the result of chronic late payment of routine bills. These clients are credit risks. Other low scores result from an uninsured illness, resulting in a lingering medical bill. We often feel that these clients would be successful home owners. However, we cannot get them qualified for good loans in the current lending environment. As noted, buying a home in communities such as

Frayser can be more affordable than renting, but **consumers need assistance in qualifying for safe, affordable loans.**

On behalf of Frayser and other Memphis communities, I appreciate this opportunity to speak to you today. I am aware that some of the issues I have raised today are more appropriately addressed on a local level. Obviously, though, there are steps that could be taken in Washington that could have positive and stabilizing effects on our neighborhoods.

In conclusion, I would like to leave the committee with the following points:

- 1) Due to the massive transition from owner occupied homes to investor owned properties, Memphis needs protection from unskilled and sometimes predatory landlord/investors. Establishment of minimum rental standards would be a good start.**
- 2) Memphis communities need stepped up board-up programs to protect empty homes. This would be a very cost-effective investment.**
- 3) An increase in funding for foreclosure counseling and education would pay dividends in our communities.**
- 4) No one wants to make home loans that are not safe and sustainable, but low income consumers currently need assistance in qualifying for safe, affordable loans.**

Thank you again for this opportunity.